

**LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

301 State House
(317) 232-9855

FISCAL IMPACT STATEMENT

LS 7290

BILL NUMBER: SB 189

DATE PREPARED: Dec 31, 2000

BILL AMENDED:

SUBJECT: Sales Tax on Food Sold in Vending Machines.

FISCAL ANALYST: John Parkey

PHONE NUMBER: 232-9854

FUNDS AFFECTED: ☒ **GENERAL**
☒ **DEDICATED**
FEDERAL

IMPACT: State

STATE IMPACT	FY 2001	FY 2002	FY 2003
State Revenues		(8,500,000)	(8,900,000)
State Expenditures			
Net Increase (Decrease)		(8,500,000)	(8,900,000)

Summary of Legislation: This bill provides that a food item sold from a vending machine may fall within the category of "food for human consumption" and may therefore be exempt from the sales tax. (Current law specifically excludes food sold from a vending machine from the category of food for human consumption and thus makes vending machine food subject to the sales tax.) The bill creates a new category ("food for immediate human consumption") to refer to certain types of food (including restaurant food, take out food, and catered food) that are excluded from the category of food for human consumption and are therefore subject to the sales tax. It does not designate vending machine food as a food for immediate human consumption.

Effective Date: July 1, 2001.

Explanation of State Expenditures: The Department of State Revenue may have some additional administrative expenses associated with accommodating these changes.

Explanation of State Revenues: This proposal will make items sold through vending machines subject to the same exemptions that apply to items sold through other means. (Under current law, all items sold through vending machines are taxable, including food items that would be tax exempt if sold in a store.) The exemptions created by this bill are estimated to reduce sales tax revenue by \$8.5 M in FY 2002 and \$8.9 M

in FY 2003.

This analysis assumed that sales of snack foods, hot beverages, microwavable foods, dairy products, and juice would be exempt from sales taxes. The sale of candy, gum, and soft drinks were assumed to remain taxable.

To estimate the impact of this bill on vending machine sales tax revenue, vending machine sales data were collected from two industry sources: Automatic Merchandiser and Vending Times. Using 1999 sales data from Automatic Merchandiser resulted in an estimated FY 2002 impact of \$8.8 M and an impact of \$9.2 M in FY 2003. Estimates based on 1998 data from Vending Times resulted in a FY 2002 impact of \$8.1 M and a FY 2003 impact of \$8.5 M. These estimates assumed a yearly 4.84% increase in Indiana vending machine sales (the estimated yearly growth rate in sales tax revenue from FY 1999 to FY 2003). Taking the mid-point of these estimates for each fiscal year yields an impact of approximately \$8.5 M in FY 2002 and \$8.9 M in FY 2003.

Year	Impact
FY 2002	\$ 8.5 M
FY 2003	\$ 8.9 M

Gross Retail (Sales) and Use taxes are deposited in the State General Fund (59.03%), the Property Tax Replacement Fund (40%), the Public Mass Transportation Fund (0.76%), the Industrial Rail Service Loan Fund (0.04%), and the Commuter Rail Service Fund (0.17%).

The annual reductions to these funds for FY 2002 are estimated to be:

State General Fund	\$ 4,993,609
Property Tax Replacement Fund	\$ 3,383,777
Public Mass Transit Fund	\$ 64,292
Industrial Rail Service Loan Fund	\$ 3,384
Commuter Rail Service Fund	\$ 14,381
Total	\$ 8,459,443

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue.

Local Agencies Affected:

Information Sources: Vending Times, "Census of the Industry, 1998"; Automatic Merchandiser, "2000 State of the Vending Industry Report"; U.S. Census Bureau; *December 19, 2000, Revenue Forecast Update*.